Income from Other Sources

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Basis of charge – Section 56

Basis of Charge - Section 56

Section 56(1)

*"Income of every kind which is **not to be excluded from the total income** under this Act shall be chargeable to income-tax under the head "Income from other sources", **if it is not chargeable to income-tax under any of the heads specified in section 14, items A to E.**"*

Two basic criteria for taxability of income under the head 'other sources':

Not exempted for taxation

Not includible under any other head of income

Heads of income as per Section 14

A

Income from Salaries

C

Income from House Property

D

Income from PGBP

E

Income from Capital Gains

F

Income from Other Sources

Method of accounting regularly followed determines chargeability to tax. ICDS shall be applicable if mercantile system of accounting is followed.

Basis of Charge - Section 56

Section 56(2)

*"In particular, and **without prejudice** to the generality of the provisions of sub-section (1), the following incomes, shall be chargeable to income-tax under the head "Income from other sources", namely :—."*

Dividend

Winnings from lotteries / crossword puzzles / races / card games / gambling/ entertainment show- 115BB

Sum received from employees as contribution to any PF, Superannuation fund or ESI Fund or any other fund for the welfare of employees*

Interest on securities*

Rental Income of Machinery or furniture*

Rental income of P&M or furniture along with building*

Any sum received under a keyman insurance policy including the sum allocated by way of bonus*

Gifts (receipts without/ inadequate consideration) – subject to conditions discussed separately

** If not included under the head PGBP*

There are certain other income chargeable under this head due to deeming fiction provided in some clauses

Basis of Charge - Section 56

Section 56(2)

Non-operational clauses from 1 April 2017

Clause (vii)
(Applicable to individual or HUF)

- Sum of **money** > INR 50,000
- **Immovable property**, subject to conditions
- **Property** other than immovable property, subject to conditions

Clause (viia)
(Applicable to firm or company, in which public is not substantially interested)

- **Shares** of a company not being a company in which the public are substantially interested, subject to conditions
- Excluding property covered under Section 47(via)/(vic)/(vicb)/(vid)/(vii)

With effect from 1 April 2017, the provisions of these clauses have been subsumed in clause (x) of sub-section (2).

Yet, certain definition provided in these clauses are still relevant, such as ‘relative’, ‘property’, etc.

Basis of Charge - Section 56

Section 56(2)(vii) – Applicable to individuals or HUF

Property	Mode of Receipt	Amount Liable to Tax
a. Sum of Money	Without Consideration (aggregate value > Rs. 50,000)	Whole of the aggregate value of money received
b. Immovable Property*	Without Consideration (Stamp Duty Value ('SDV') > Rs. 50,000)	SDV of immovable property
	For a consideration less than SDV by Rs. 50,000	✓ SDV of immovable property in excess of the consideration. ✓ SDV as on date of agreement can be considered if date of transfer is different and consideration is received, on or before the date of agreement in a mode other than cash
c. Movable Property*	Without Consideration (FMV exceeds Rs. 50,000)	Whole of the aggregate of FMV (as per prescribed method) of movable property
	For a consideration less than FMV by Rs. 50,000	Aggregate FMV (as per prescribed method) of movable property in excess of the consideration.

** Property means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art, bullion (Right Shares, Car etc)*

Basis of Charge - Section 56

Section 56(2)(vii) – Applicable to individuals or HUF
Example
Amount Received as Gift

Amount Received by	Amount Received from X	Amount Received from Y	Amount Received from Z	Taxable under Head Other Sources
A	20000	10000	0	0
B	10000	5000	35000	0
C	10000	30000	40000	80000
D	100000	0	0	100000

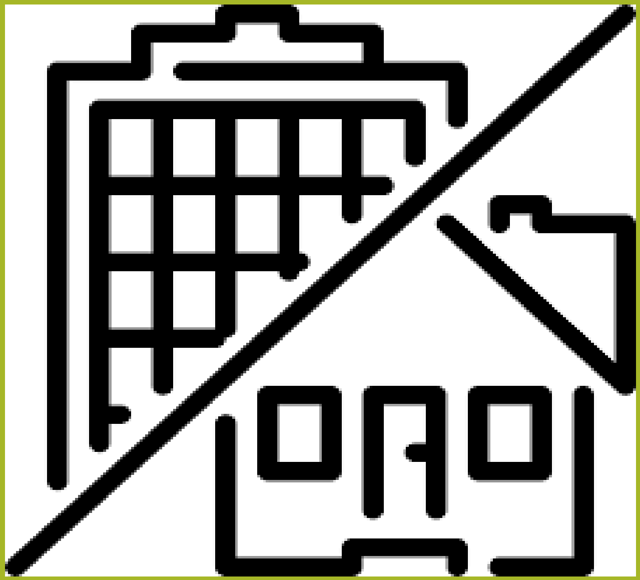
Basis of Charge - Section 56

Section 56(2)(vii) – Applicable to individuals or HUF
Example
Immovable Property Received

Case	Stamp Duty Value of Property	Actual Consideration Paid	Taxable under Head Other Sources
A	45000	0	0
B	50000	0	0
C	1000000	0	100000
D	650000	600000	0
E	700000	200000	500000

Basis of Charge - Section 56

Section 56(2)(vii) – Proviso 1 – SDV of immovable property (Section 50) till 01.04.2017



- ✓ If the SDV is disputed by the assessee, the AO may refer the valuation of property to the Valuation Officer.
- ✓ The provisions of Section 50C and Section 155(15) shall be applicable.
- ✓ Section 155(15) has been omitted.

** SDV means the value adopted or assessed or assessable by any authority of Central Government or State Government for the purpose of payment of stamp duty in respect of immovable property.*

Basis of Charge - Section 56

Section 56(2)(vii) – Proviso 2– Exclusions for individual or HUF

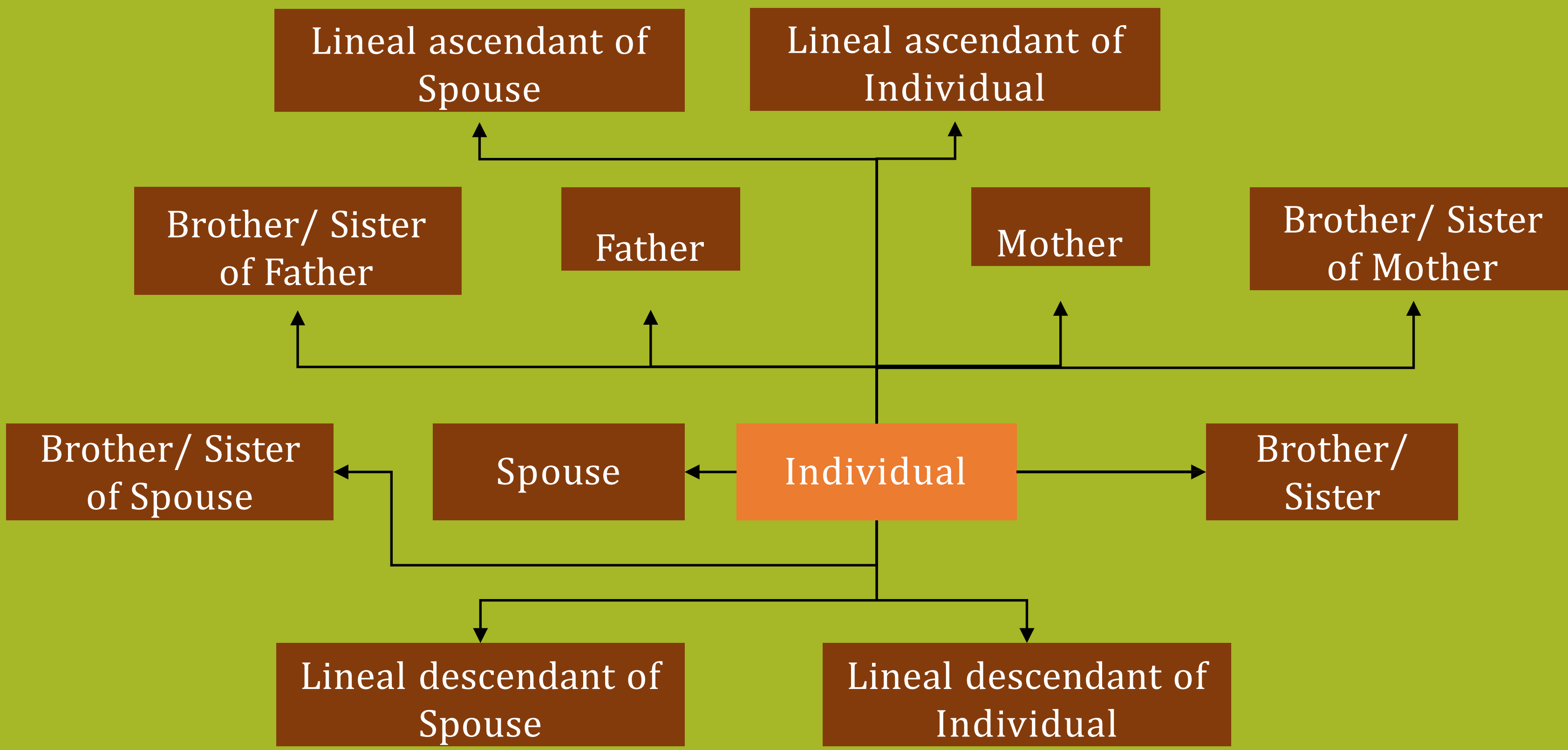
Not applicable if sum or property received:

- from **relatives**, or
- on the **occasion of marriage** of the individual, or
- under a **will** or by way of **inheritance**, or
- in **contemplation of death** of the payer, or
- from any local authority, or
- from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in clause (23C) of section 10.
- from any trust or institution registered u/s 12AA or 12AB
- gift by way of **transaction not regarded as transfer** under section 47 in following cases
  - ✓ In the case of business reorganisation (Clause (vicb))
  - ✓ In the scheme of amalgamation or demerger (Clause (vid) and Clause (vii))

Whether a sum of Rs. 100,000 received on the **occasion of birthday** of an individual, taxable under the head 'income from other sources'?

Basis of Charge - Section 56

Section 56(2)(vii) – definition of 'relative'



Basis of Charge - Section 56

Section 56(2)(viia) – Applicable to firm or company, not being a company in which public are substantially interested (Section 50CA)

Property	Mode of Receipt	Amount Liable to Tax
Shares of a company not being a company in which the public are substantially interested	Without Consideration and FMV > Rs. 50,000	FMV of shares
	For a consideration less than FMV by Rs. 50,000	FMV minus Purchase Consideration

The above clause shall **not apply** for the following cases of transfer under Section 47:

- ✓ Amalgamation (Clause (via) and Clause (vii))
- ✓ Business Reorganisation (Clause (vicb))
- ✓ In the scheme of amalgamation or demerger (Clause (vic), Clause (vid) and Clause (vii))

FMV to be determined in accordance with Rule 11UA(1)

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested

a) If aggregate consideration for issue of shares exceeds FMV of the shares, then **Taxable Value = Consideration Received – FMV***.

b) The above said clause shall not apply where the consideration for issue of shares is received –
   - ✓ by a **venture capital undertaking** from a **venture capital company** or a **venture capital fund**
   - ✓ by a company from a class or class of persons as may be notified by the Central Government in this behalf.

FMV of the shares shall be the value:

*a) as may be determined in accordance with such method as may be prescribed [Rule **11UA(2)**].*

b) as may be substantiated by the company to the satisfaction of the Assessing Ofiicer ('AO'), based on the value, on the date of issue of shares, of its assets, including intangible assets being goodwill, know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature

whichever is higher.

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested (ANGEL TAX)

- Rule 11UA(2) allows the valuation by Discounted Cash Flow (‘DCF’) method

Tax controversies

1) Does the AO have the right to change the method of valuation, which has been adopted by the taxpayer for section 56(2)(viib) of the Act read with rule 11UA(2) of the Rules?

2) For applying DCF method, whether the AO can make a comparison of the projected financials with the actual performance of the company?

Provisions of Section 56(2)(viib) are not applicable to a startup registered with Department For Promotion of Industry and Internal Trade (DPIIT) ***and*** *declaration in Form 2 has been filed with DPIIT.*
- DPIIT Notification no. G.S.R. 127(E)

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested

Jurisprudence (1 of 3)

Mantram Commodity (P) Ltd. vs. ITO 127 taxmann.com 462 (Delhi-Trib.) [2021]

When the statute provides for a particular procedure, the authority must follow the same and cannot be permitted to act in contravention of the same. Tax officer has no power to do valuation other than the method prescribed in rule 11UA (2) of the Rules.

Vodafone M-Pesa Ltd. vs. PCIT 92 taxmann.com 73 (Bombay) [2018]

AO is undoubtedly **entitled to scrutinize** the valuation report and determine a fresh valuation either by himself or by calling for a final determination from an independent valuer to confront the petitioner. However, the basis has to be the DCF method only (as adopted by the company) and it is **not open to him to change the method of valuation** which has been opted for by the company.

Rameshwaram Strong Glass (P.) Ltd. vs. ITO 96taxmann.com 542 (Jaipur-Trib.) [2018]

Where assessee company determined FMV of shares issued at premium on basis of DCF method in accordance with rule 11UA (2) read with section 56(2) (viib) and valuation report was prepared as per guidelines given by the ICAI and no fault was found in same, tax officer was unjustified in changing method of valuation of shares to NAV method.

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested

Jurisprudence (2 of 3)

Cinestaan Entertainment (P.) Ltd. vs. ITO 106 taxmann.com 300 (Delhi- Trib.) [2019]

As per section 56(2)(viib) read with rule 11UA(2), the assessee company has an option to do valuation of shares and determine FMV either on DCF method or NAV method, and tax authorities cannot examine or substitute their own value in place of value so determined.

Agro Portfolio (P.) Ltd. vs. ITO 94 taxmann.com 112 (Delhi-Trib.) [2018]

The merchant banker did not do anything reflecting their expertise, except mere applying the formula to the data provided by the assessee company. There has not been any possibility of verifying the correctness or otherwise of the data supplied by the company to the merchant banker, in absence of which the correctness of the result of DCF method cannot be verified In such cases, the tax authorities may be forced to reject the DCF method, and instead, could adopt the NAV method.

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested

Jurisprudence (3 of 3)

TUV Rheinland NIFE Academy Private Limited vs. ITO ITA No.3160/Bang/2018 (Bangalore-Trib.) [2019]

The tax officer has not questioned the right of the assessee company to select the method of valuation nor has the officer dismissed the choice of DCF method as a method of valuation. The tax officer has examined the parameters adopted by the company for valuation by the DCF method and has rendered a finding that the valuation is not realistic as the **actual figures were a long-long way away from the projections made**. Thus, in absence of any valid and meaningful justification for the projections considered and adopted in determining FMV under the DCF method, another method could be used to determine FMV.

VVA Hotels (P.) Ltd vs. CIT 122 taxmann.com 106 (Madras) [2020]

Where variation between value of projected revenue and actual revenue was marginal and, further, **there was no material to hold that company's projected revenue was fabricated**, impugned change of method of valuation of shares was unjustified.

Basis of Charge - Section 56

Section 56(2)(viib) – Premium on issue of shares by a company, not being a company in which public are substantially interested

Co.	No. of shares	Face value of shares(`)	FMV of shares (`)	Issue price of shares(`)	Applicability of section56(2)(viib)
Example 1:					
A (P) Ltd.	10,000	100	120	130	The provisions of section 56(2)(viib) are attracted in this case since the shares are issued at a premium (i.e., issue price exceeds the face value of shares). The excess of the issue price of the shares over the FMV would be taxable under section 56(2)(viib). ` 1,00,000 [10,000 × ` 10 (` 130 - ` 120)] shall be treated as income in the hands of A (P) Ltd.
Example 2:					
B (P) Ltd.	20,000	100	120	110	The provisions of section 56(2)(viib) are attracted since the shares are issued at a premium. However, no sum shall be chargeable to tax in the hands of B (P) Ltd. under the said section as the shares are issued at a price less than the FMV of shares.

Basis of Charge - Section 56

Section 56(2)(viii) – Interest on Compensation/ enhanced Compensation

Taxable under the head Income from other Sources in the year of Receipt. = { Interest on compensation + Interest on enhanced compensation } - 50% of the sum total

** Deduction of 50% is allowed under clause (iv) of section 57. Further, no deduction shall be allowed under any other clause of this section against interest on compensation or enhanced compensation.*

Basis of Charge - Section 56

Section 56(2)(ix) – Forfeiture of Advance Received

- Any sum of money received as an advance, or any sum of money received in the course of negotiations for transfer of capital asset shall be taxable as **Income from other Sources if**
  - ✓ Such sum is **forfeited**
  - ✓ The negotiations **do not** result in transfer of such capital asset.

- To avoid the double taxation, a proviso has been inserted in Section 51 (Tax Treatment of Advance Money received) of the Act, wherein it has been mentioned that if the such sum has already been taxed in the previous years, the same shall not be taxed again

Basis of Charge - Section 56

Section 56(2)(x) – Applies to 'any person'

a. Any **sum of money** without consideration where the aggregate value exceeds Rs. 50,000, **the whole of the aggregate value is taxable**

b. Any **immovable property** –

- Without consideration where the SDV exceeds Rs. 50,000 - **The SDV of such property is taxable**

- For a consideration where the SDV exceeds the consideration - The SDV as exceeds such consideration, if the amount of such excess is more than the higher of the following amounts,
  - ✓ Rs. 50,000, **and**
  - ✓ Amount equal to **10%** of the sale consideration **(Amended w.e.f. 1 April 2021)**

  E.g. – *If the sale consideration of immovable property is Rs. 90 Lakh, then the SDV should not be more than Rs. 99 Lakh [110% of sale consideration]. If the SDV is Rs. 1 Cr., the Rs. 10 Lakh shall be taxable as income from other sources.*

Basis of Charge - Section 56

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

(i) *Akhil HUF received ` 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.*

(ii) *Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is*
` 9,00,000.

(i) *Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was*
` 100 per share. He also received jewellery worth ` 45,000 (FMV) from his nephew on the same day.
Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ` 5,25,000.

Basis of Charge - Section 56

	Taxable/ Non- taxable	Amount liable to tax(`)	Reason
(i)	Taxable	75,000	Sum of money exceeding ` 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ` 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (` 10,000) and jewellery (` 45,000) exceeds ` 50,000. Hence, the entire amount of ` 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Deductions – Section 57

Deductions - Section 57

Significant deductions under Section 57:

In the case of dividends, or interest on securities → Reasonable sum paid by way of commission or remuneration to a banker or any other person for realizing such dividend or interest

*Deduction of **only up to 20%** of income to be allowed and that too only in respect of **interest expense** in case of following incomes:*

- ***dividend,***
- *income in respect of units of a Mutual Fund specified under clause (23D) of section 10 or*
- *income in respect of units from a specified company defined in the Explanation to clause (35) of section 10*

Deduction under section 80M can be claimed separately as per the conditions prescribed in that section.

Deductions - Section 57

Significant deductions under Section 57:

In case of family pension	Deduction of 33.33% or Rs. 15,000 whichever is less
Any other expenditure of revenue nature	It should be laid out of expended wholly and exclusively for earning that income

Deductions not allowed – Section 58

Deductions not allowed - Section 58

Deductions not allowed under Section 58:

Section 58(1):

a) Personal Expenses

b) Interest and Salary payable outside India and TDS not deducted

Section 58(1A):

a) 30% of sum payable to resident if TDS not deducted

b) Wealth tax

[Sub-clauses (ia) and (iia) of clause (a) of section 40]

Section 58(2):

Provisions of Section 40A shall apply as it applies for PGBP

Section 58(3):

Provisions of Section 44D for foreign company shall apply as it applies to Income under 'PGBP'

Section 58(4):

No deduction shall be allowed of expenses incurred in relation to income earned from lotteries/races/gambling.

- The provisions of Section 58(4) shall not apply in computing the income in case the assessee is in the business of maintaining horses for running in horse races.

- "Horse race" means a horse race upon which wagering or betting may be lawfully made

Profits chargeable to tax– Section 59

Profits chargeable to tax - Section 59

Section 59

“(1) The provisions of sub-section (1) of ***section 41*** *shall apply, so far as may be, in computing the income of an assessee under section 56, as they apply in computing the income of an assessee under the head "Profits and gains of business or profession".”*

If a deduction was claimed in earlier year while computing income from other sources and the same is written back, then such amount shall be chargeable to tax under section 56 in the year in which such amount is written back.

Income Computation and Disclosure Standards

Income Disclosure Standards

ICDS I: Accounting Policies

- It recognizes the fundamental accounting assumptions of going concern, consistency and accrual, it **does not recognize the concepts of "materiality" and "prudence"** in selection of accounting policies.
- Treatment and presentation of transactions have to be governed by their substance and not merely by the legal form.
- Marked to market loss or an expected loss is not to be recognized unless recognition of such loss is in accordance with the provisions of any other ICDS.

ICDS II: Valuation of Inventories

- Inventories" has been defined to mean assets held for –
  - sale in the ordinary course of business;
  - in the process of production for such sale;
  - in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- Inventory to be valued at cost or net realizable value, whichever is lower.
- Disclosure of the **accounting policies** adopted in measuring inventories including the **cost formulae** used and the **total carrying amount of inventories.**

Income Disclosure Standards

ICDS III: Construction Contracts

- It recognizes **percentage of completion method (POCM)** for recognizing contract revenue and contract costs associated with a construction contract.
- However, contract revenue and contract costs associated with the construction contract, which commenced on or before **31.3.2016** but not completed by the said date, can be recognised based on the method regularly followed by the person prior to the previous year 2016-17.
- Certain disclosure requirements, like the **amount of contract revenue recognized** as revenue in the period, the **methods used** to determine the stage of completion of contracts in progress etc.

ICDS IV: Revenue Recognition

- This ICDS deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from –
- the sale of goods;
- the rendering of services;
- the use by others of the person's resources yielding interest, royalties or dividends
- It does not, however, deal with the aspects of revenue recognition which are dealt with by other ICDSs.

Income Disclosure Standards

ICDS IV: Revenue Recognition

- In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.
- Revenue from sale of goods could be recognized when there is **reasonable certainty** of its ultimate collection or **title of goods has been transferred** .
- Revenue from **service transactions** is required to be recognized on the basis of **percentage completion method**. However, revenue can be recognised on a straight line basis over a specific period of time, when services are provided by an indeterminate number of acts over such period.
- Revenue from service contracts with **duration of not more than 90 days** to be recognised when the rendering of services under that **contract is completed or substantially completed**.
- Certain disclosure requirements, like the **amount of revenue from service** transactions recognized as revenue during the previous year, the **method used to determine** the stage of completion of service transactions in progress, information relating to service transactions in progress at the end of the previous year etc.

Income Disclosure Standards

ICDS V: Tangible Fixed Assets

- "Tangible fixed asset" is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
- This ICDS provides the components of actual cost of such assets and valuation of such assets in special cases, like spares , standby equipment ,etc.
- The value of a tangible fixed asset acquired in **exchange for shares or other securities or another asset** shall be its actual cost shall be FMV of such assets or securities.
- The ICDS also provides that **depreciation on such assets and income arising on transfer** of such assets shall be computed **in accordance with the provisions of the Income-tax Act, 1961.**
- The ICDS also contains disclosure requirements in respect of such assets, like the **description** of asset or block of assets, **rate of depreciation**, **actual cost or written down value**, as the case may be, **additions or deductions** during the year with dates, **depreciation allowable and written down value at the end of the year**.

ICDS VI: The Effects of changes in foreign exchange rates

- Deals with treatment of transactions in foreign currencies, translating the financial statements of foreign operations and treatment of foreign currency transactions in the nature of forward exchange contracts.

Income Disclosure Standards

ICDS VI: The Effects of changes in foreign exchange rates

- Exchange differences arising on settlement of monetary items or conversion thereof at last day of the previous year to be recognized as income or as expense in that previous year.
- In respect of non-monetary items, exchange differences arising on conversion thereof as at the last day of the previous year shall not be recognized as income or as expense in that previous year.
- At the last day of each previous year, foreign currency monetary items shall be converted into reporting currency by applying the closing rate.
- Non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.
- Non-monetary item being inventory which is carried at net realisable value denominated in a foreign currency shall be reported using the exchange rate that existed when such value was determined.
- The ICDS contains provisions for initial recognition, conversion at the last date of the previous year and recognition of exchange differences.
- These provisions shall be subject to the provisions of section 43A of the Income-tax Act, 1961 (Fixed Assets).

Income Disclosure Standards

ICDS VII: Government Grants

- Includes government grants called by other names such as subsidies, cash incentives, duty drawbacks etc.
- It requires recognition of Government Grants when there is a **reasonable assurance** that the person shall **comply with the conditions** attached to them and the grants shall be received. However, it also states that **recognition** of Government grant shall **not be postponed beyond the date of actual receipt**.
- Government grants relatable to **depreciable fixed assets** to be **reduced from actual cost/WDV**. It further provides that where the Government grant is not directly relatable to the asset acquired, then a pro-rata reduction of the amount of grant should be made in the same proportion as such asset bears to all assets with reference to which the Government grant is so received.
- Grants relating **to non-depreciable fixed assets to be recognized as income** over the same period **over which the cost of meeting such obligations is charged to income**.
- **All other** Government Grants have to be recognized as income over the periods necessary to **match them with the related costs which they are intended to compensate.**
- Certain disclosure requirements, like nature and extent of Government grants recognized during the previous year as income, nature and extent of Government grants not recognized during the previous year as income and reasons thereof etc.

Income Disclosure Standards

ICDS VIII: Securities

- There are two parts. Part A deals with securities held as stock-in-trade. Part B deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013.
- Securities (referred to in Part A) to **be recognized at actual cost on acquisition, which shall comprise of its purchase price and include acquisition charges like brokerage**, fees, tax, duty or cess.
- The actual cost of a security (referred to in Part A) **acquired in exchange** for other securities or another asset shall be the fair value of the security so acquired.
- Subsequently, at the end of any previous year, securities **held as stock-in-trade** have to be valued at actual cost initially **recognized or net realizable value at the end of that previous year, whichever is lower.**
- Such comparison **of actual cost initially recognized and net realizable value** has to be done **category-wise and not for each individual security**.
- Securities referred to in Part B to be classified, recognised and measured in accordance with the extant guidelines issued by the RBI in this regard. Any claim for deduction in excess of the said guidelines will not be taken into account.

Income Disclosure Standards

ICDS IX: Borrowing Costs

- It does not deal with the actual or imputed cost of owners' equity and preference share capital.
- It requires borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized as part of the cost of that asset. Other borrowing costs have to be recognized in accordance with the provisions of the Act.
- Qualifying asset has been defined to mean –
  - land, building, machinery, plant or furniture, being tangible assets;
  - know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
  - inventories that require a period of twelve months or more to bring them to a saleable condition.
- This ICDS requires capitalization of specific borrowing costs and general borrowing costs.
- This ICDS provides the formula for capitalization of borrowing costs when funds are borrowed generally and used for the purpose of acquisition, construction or production of a qualifying asset.
- It also provides as to when capitalization of borrowing costs would commence and cease.
- It requires disclosure of the accounting policy adopted for borrowing costs and the amount of borrowing costs capitalized during the year.

Income Disclosure Standards

ICDS X: Provisions, Contingent Liabilities and Contingent Assets

- It does not deal with provisions, contingent liabilities and contingent assets –
  - resulting from financial instruments,
  - resulting from executory contracts,
  - arising in insurance business from contracts with policyholders and
  - covered by another ICDS.
- It also does not deal with recognition of revenue dealt with by ICDS on Revenue Recognition.
- The ICDS specifies the conditions for recognition of a provision, namely, existence of a present obligation as a result of a past event, reasonable certainty that outflow of resources embodying economic benefits will be required to settle the obligation and making a reliable estimate of the amount of the obligation.
- It provides that a person shall not recognize a contingent liability or a contingent asset. However, it requires contingent assets to be assessed continually. When it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income have to be recognized in the previous year in which the change occurs.
- It contains provisions for measurement and review of a provision and asset and related income.
- It also provides that a provision shall be used only for expenditures for which the provision was originally recognized.
- The ICDS also contains specific disclosure requirements in respect of each class of provision, asset and related income recognized.

THANKYOU

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